

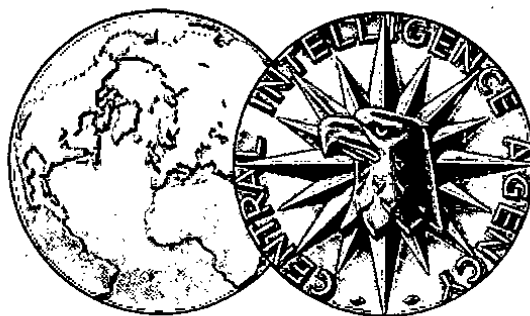
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WEEKLY SUMMARY



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H I G H L I G H T S

The week's developments having potential significance for US security interests centered primarily in the Far East, where the fate of Indochina assumed greater urgency as that country became a sharper focal point in the struggle to contain World Communism. France's inability to stamp out the revitalized Communist-led resistance movement without outside assistance will lead to greater pressure for Western aid in holding the line against Communism at the Chinese border (see page 3). Moreover, it became increasingly apparent that as long as the French bear sole responsibility for the military effort in Indochina, Bao Dai has little chance of gaining greater popular support and will be reluctant to cooperate fully with the French (see page 8).

Meanwhile, the Chinese Communists are being sorely tried by famine conditions which may soon become catastrophic (see page 7). The famine will weaken Communist administration in rural areas but is unlikely to become a serious threat to over-all Communist political control of the nation.

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W E S T E R N E U R O P E

Economic Unity Interest in regional approaches to European trade liberalization has revived following the failure of the recent meeting of the Council of the Organization for European Economic Cooperation to overcome British objections to sweeping liberalization on a Europe-wide basis. The proposed Franco-Italian-Benelux group (FINEBEL) may now take steps to proceed with liberalizing trade and payments between themselves and possibly with Western Germany. Any agreement presently foreseen along these lines, however, is unlikely to be sufficiently far-reaching to make a major contribution to European viability.

Belgium and the Netherlands, for instance, desire a much greater degree of trade liberalization than France seems willing to undertake, and the Netherlands, in particular, considers German participation indispensable to any continental bloc.

In addition, any efforts by the French Government to foster economic integration through such a regional approach will be seriously handicapped by: (1) the reluctance of French industry to lower trade barriers for fear of reducing even temporarily the present high level of production and hence causing unemployment; and (2) strong general opposition in France to the inclusion of Western Germany without the counter-balancing influence of British participation.

There is as yet no indication that French industry is ready or willing to accept the temporary dislocations which would result from: (1) abandoning the manufacture of goods now being produced at costs which make it impossible to compete with such countries as Belgium and West Germany;

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and (2) concentrating instead on the production of those goods which France can make best and most cheaply. As long as the French insist upon maintaining trade barriers to protect their competitive position in the world market, European economic integration and viability will be seriously jeopardized.

FRANCE

Communist Trends By following a militant internationalist line during the past few months, the French Communist Party has demonstrated its willingness to sacrifice its appeal to a large part of its following. This lessening emphasis on nationalist themes and increasing reliance on "hard-core" Stalinists is likely to result in a substantial drop in membership. Moreover, the present Communist policy will probably cause some disintegration of Communist-front organizations and permit a sharper definition of the issues separating Communists from anti-Communists. This cleavage has been illustrated by the strong official French reaction to Soviet and Chinese Communist recognition of the dissident Ho Chi Minh in Indochina.

Indochina Policy Although popular support at home for the French Government's Indochina policy has increased as a result of Soviet and Chinese recognition of Ho Chi Minh, prospects for implementing the policy successfully remain poor. The level of the military effort being maintained in Indochina is close to the maximum of French capabilities; if the Chinese Communists provide appreciable support to Ho Chi Minh in the form of military technicians and equipment, France will be incapable of containing the resistance movement without outside assistance. The French

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are likely, therefore, to increase their efforts to obtain British and US support, basing their claim on the growing urgency of regarding Indochina as a critical battleground in the East-West struggle.

AUSTRIA

Foreign Policy After almost 5 years of occupation and intermittent treaty deadlocks, the Austrians have now become more apprehensive of Soviet intentions than during any previous quadripartite impasse. Fearing that an indefinite continuation of the present stalemate will lead the USSR to take steps which would eventually result in the partition of Austria, the Austrian Government will redouble its efforts to induce the four occupying powers to conclude a treaty. In striving for this goal, the Austrians will seek to counteract the Soviet belief that Austria intends to align itself completely with the West. By such an approach, the Austrians hope to obtain Soviet agreement to a treaty and forestall more aggressive Soviet action in the Eastern Zone.

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E A S T E R N E U R O P E

YUGOSLAVIA

"Democratic" Reforms The Yugoslav Government, by enacting a number of electoral, industrial, and fiscal reforms, is apparently attempting to broaden the base of popular support for Tito. The government is taking these steps in an attempt to strengthen internal stability, counter more effectively the expected Communist effort to exploit internal Yugoslav dissatisfaction over difficult living conditions, and to pave the way for an all-out drive to achieve maximum production and export goals. This official stress on a "more democratic socialism" may perhaps obtain wider support for the government, but any moves toward real democratization by the Tito Government appear unfeasible at present. The concessions presently being made to public opinion are, therefore, formalities which will not affect Tito's dictatorial control over the Communist Party or the people.

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SECRET**N E A R E A S T - A F R I C A****IRAN**

Economic Troubles It is becoming increasingly clear that the Iranian Government has not yet acted effectively to check the rapid growth of general economic distress. Although Iran's own resources, together with outside aid now contemplated, might suffice, if properly applied, to accomplish much of the government's comprehensive long-range program for the improvement of economic and social conditions, the constant threat posed by the geographical proximity of the USSR militates against effective and timely implementation of measures to cure Iran's ills. Iran's exposed position discourages private investment in long-term production enterprises and facilitates the spread of subversive activities. Moreover, it has led Iranian leaders to expend on the military establishment large sums needed for other purposes and, in general, has encouraged the Iranians to believe that their problems are extraordinary ones requiring outside help. Under these circumstances, the Shah's recent request for more US economic aid may represent as much a desire for moral support as for specific material assistance. The Shah may feel that some tangible proof of US support is necessary to reassure the population, pending a definite alleviation of the present distress, and may even have some doubts about his ability to stabilize the situation without US help. The growth of such doubts on his part could ultimately jeopardize Iran's political stability, inasmuch as the Shah, who has promised that reform measures would be forthcoming, is the only individual with sufficient authority and energy to carry them out.

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F A R E A S T

CHINA

Famine Grows China's growing famine, already worse than any in recent decades, may soon become catastrophic in those areas north of the Yangtze River which contain half the nation's rural population. The number of stricken people is already as high as 20 million. The famine will increase in severity until the June harvests, which themselves will be below normal because of the loss of work animals, the weakened condition of surviving peasants, and the scarcity of seed grains. Although Communist authorities are instituting various "self-help" activities and river control projects to provide employment, lack of resources and inability to import food supplies will make these efforts increasingly inadequate. As peasant unrest grows, the Communist administration in rural areas will be weakened. Chinese Communist political control, however, is not likely to be seriously endangered, although the famine will cause at least a year's delay in Communist plans for economic reconstruction.

Hainan Invasion The Chinese Communist assault on Hainan Island will probably be successfully mounted within the next month. Although unseasonably clear weather has permitted continued Nationalist air and naval forays against the Communist forces, invasion preparations probably have been completed. Fog and favorable winds expected in February and March will facilitate the movement of a Communist invasion fleet and lend cover against Nationalist air and naval counter-measures. Only thirty thousand of an estimated 125,000 Hainan defenders are potentially capable of organized

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resistance. Moreover, although present coordination between the Nationalist services is reportedly good, it is doubtful whether the navy, and particularly the air force, can be relied on for an all-out defense of the Island.

INDOCHINA

Aid to Bao Dai The problem of cooperation between Bao Dai and the French in the struggle against the Communist-led resistance in Indochina has again been raised by Bao Dai's recent request for US aid. It is apparent that Bao Dai desires far greater authority in political and military matters than granted him under the recently concluded agreements for the transfer of sovereignty. Although Bao Dai's requests are unrealistic in the light of his regime's limited financial and military capabilities, it is doubtful whether he will give his full cooperation to the French either under present conditions or if the French receive additional outside assistance. Moreover, as long as the French are in exclusive control of military operations, Bao Dai will have difficulty obtaining the support of many nationalists who are now neutral or actively backing Ho Chi Minh.

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IMPLICATIONS OF BRITISH ELECTIONS

Although Labor will probably win the British general election of 23 February with a working majority, a Conservative victory with a working majority or an indecisive result is possible. US security interests would not be seriously affected if a strong government were formed by either of the major parties; both parties would maintain the defense organization, the present foreign policy, Anglo-US cooperation, and Commonwealth ties.

A Labor victory with a working majority would probably be slightly more advantageous to US interests than a corresponding Conservative victory. With a reduction in the standard of living likely, a Labor government would be better able to command the loyalty of the workers and thus maintain a higher degree of domestic stability. In the field of foreign affairs, Communist propaganda attacks on Anglo-US imperialism might carry less weight as long as a social democratic government was in power in the UK. Moreover, although either a Labor or a Conservative government would place great emphasis on Anglo-US cooperation, the present regime has been easy to work with and a Cabinet with Churchill as Prime Minister might be more difficult.

The principal advantage to be expected from a Conservative victory would be an increase in incentives resulting from some relaxation of state-imposed restrictions and some reduction in taxation. Such steps might have a salutary effect on the economy but should not be over-emphasized because, most of the present controls result from economic and political necessity rather than from socialist doctrine. A Conservative government might also demonstrate greater skill and flexibility in conducting diplomatic relations with Europe,

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but it is by no means clear that the Conservatives would be more willing to risk British interests in the cause of closer Western European integration.

If the election results in an indecisive Parliamentary majority for either party--less than 40 to 50 seats--the government would lack the strength to carry out a resolute program. A prolonged period of indecision could seriously retard economic progress and might necessitate a reappraisal of British strategic commitments. An indecisive election would probably extend the period of political maneuvering which has existed since devaluation; attention better devoted to the national interest would be turned to internal party matters in anticipation of another election. In foreign affairs, British influence would be weakened by the realization that the rule of the incumbent government might be of short duration, and by the same token the government would probably be hesitant to make long-range commitments.

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